

# Vietnam Enterprise Investments

Established Vietnamese equity market specialist

Initiation of coverage

Investment companies

Vietnam Enterprise Investments (VEIL) is a specialist actively-managed, closed-ended investment company that is the largest and longest established fund focused on Vietnam-listed equities. Launched in 1995, it moved its listing to the LSE in July 2016 and has been included in the FTSE 250 Index since 18 July 2017. VEIL's well-resourced investment team adopts a rigorous, bottom-up approach, aiming to achieve capital growth from a portfolio that typically comprises 35 to 40 holdings. Absolute performance has been notably strong over one year and VEIL's NAV total return has outperformed its VN Index benchmark over one, three, five and 10 years. The manager believes Vietnam's stock market valuation is compelling and expects a number of attractive near-term opportunities to arise from the strong pipeline of prospective new listings and placings.

12 months ending	Share price (%)	NAV (%)	VN Index (%)	VN30 Index (%)	MSCI Emerging Markets (%)
30/06/13	9.7	24.4	21.3	15.1	6.8
30/06/14	12.2	2.9	9.9	4.5	1.7
30/06/15	12.7	19.0	13.9	11.0	3.5
30/06/16	32.5	32.7	26.8	18.9	3.9
30/06/17	57.0	41.9	26.9	27.1	27.8

Source: VEIL, Thomson Datastream, Bloomberg. Note: All % on a total return basis in GBP.

## Investment strategy: Rigorous bottom-up approach

VEIL seeks medium- to long-term capital growth from a relatively concentrated portfolio, drawn mainly from Vietnam's top 70 listed 'blue chip' companies. The investment team selects stocks using a detailed, bottom-up process, drawing on a team of 11 research analysts dedicated to Vietnamese equities. Although aiming to outperform the VN Index, allocations are unconstrained by index weightings. Environmental, social and governance (ESG) considerations are a key focus, with stocks deemed non-compliant excluded from the investment universe. VEIL is not activist, but seeks to collaborate with the management of investee companies.

## Market outlook: Positive medium-term prospects

Vietnam's VN Index forward P/E multiple has retreated from its 2016 high of 17.5x to 15.4x, only a moderate premium to the MSCI AC Asia ex-Japan Index, trading on 14.1x. There are near-term risks relating to developments in China, management of Vietnam's fiscal balance and the progress of government reforms, but medium-term economic forecasts suggest a healthy backdrop for corporate earnings growth. In this context, the market valuation does not appear overstretched, leaving scope for earnings growth to lead the market higher. The accelerated reform of state-owned enterprises (SOEs) and continuing relaxation of foreign ownership limits (FOLs) are also expected to contribute positively to Vietnam's stock market prospects.

## Valuation: Discount close to five-year low

VEIL's share price discount to NAV has largely stayed within a 15% to 20% range over the last three years. However, recent narrowing has taken the discount to a five-year low. The current 10.6% discount compares to its 18.4% five-year average.

25 July 2017

**Price** 371.0p  
**Market cap** £817m  
**AUM** £928m

NAV\* 415p  
Discount to NAV 10.6%

\*Excluding income as at 21 July 2017.

Yield 0.0%

Ordinary shares in issue 220.1m

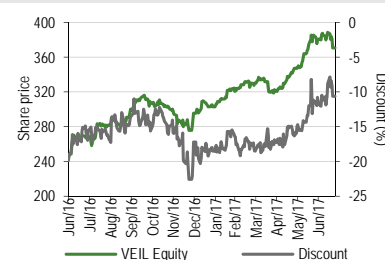
Code VEIL

Primary exchange LSE

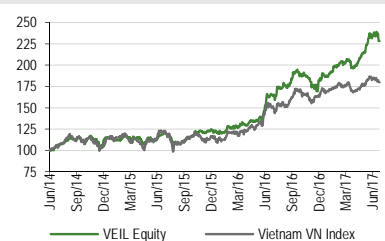
AIC sector Country Specialists: Asia Pacific

Benchmark VN Index

### Share price/discount performance



### Three-year performance vs index



52-week high/low 388.8p 258.5p

NAV\* high/low 436.0p 308.0p

\*Excluding income.

### Gearing

Gross\* 1.6%

Net\* 0.4%

\*As at 30 June 2017.

### Analysts

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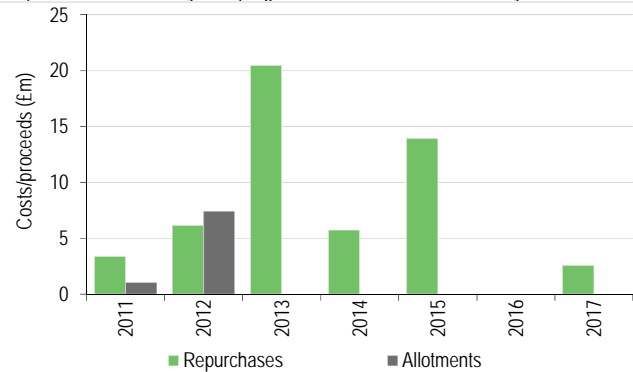
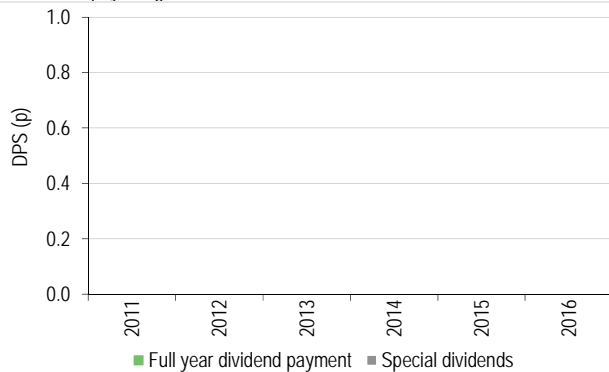
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**Vietnam Enterprise Investments is a research client of Edison Investment Research Limited**

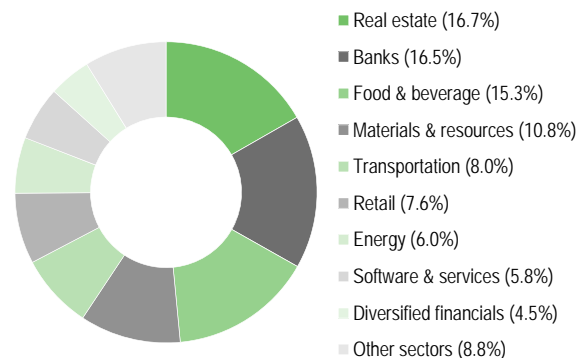
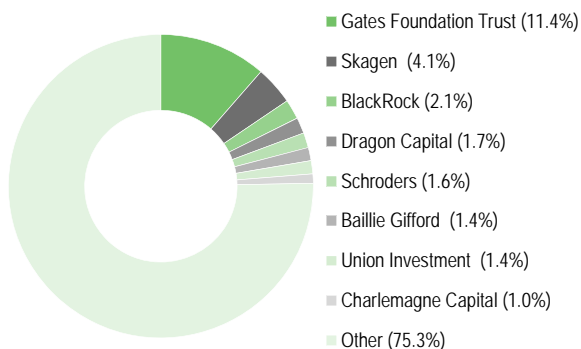
### Exhibit 1: Company at a glance

Investment objective and fund background		Recent developments			
VEIL's investment objective is to achieve medium- to long-term capital growth by investing in the equity securities of companies primarily operating in, or with significant exposure to, Vietnam. VEIL adopts a bottom-up approach to investment selection and does not set portfolio allocations with reference to index weightings. The VN Index is used as a performance benchmark, which VEIL seeks to outperform on a rolling three-year basis.		<ul style="list-style-type: none"> <li>18 July 2017: VEIL's ordinary shares included in the FTSE 250 Index.</li> <li>14 July 2017: New tiered annual management fee from 1 August 2017 – 2.00% on net assets up to US\$1.25bn; 1.75% up to US\$1.50bn; 1.50% above US\$1.50bn.</li> <li>20 April 2017: Annual results to 31 December 2016 – NAV total return +46.5% in sterling terms versus +39.7% for the VN Index.</li> <li>17 February 2017: New share buyback programme commenced as part of VEIL's active discount management policy.</li> </ul>			
Forthcoming		Capital structure		Fund details	
AGM	June 2018	Total expense ratio	2.16% (see page 11)	Group	Dragon Capital
Interim results	September 2017	Net gearing	0.4%	Manager	Vu Huu Dien
Year end	31 December	Annual mgmt fee	Tiered: 2.00%;1.75%;1.50% of net assets	Address	PO Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands
Dividend paid	N/A	Performance fee	None	Phone	+84 8 3823 9355
Launch date	11 August 1995	Company life	Indefinite	Website	<a href="http://www.veil-dragoncapital.com">www.veil-dragoncapital.com</a>
Continuation vote	None	Loan facilities	US\$40m credit facility		

Dividend policy and history (financial years)		Share buyback policy and history (financial years)	
VEIL's investment objective is to achieve capital growth and there is currently no intention to pay a regular dividend.		VEIL has annually renewed authority to repurchase up to 14.99% of its issued capital. A new share buyback programme was initiated in February 2017.	



Shareholder base (as at 24 July 2017)	Portfolio exposure by sector (as at 30 June 2017)
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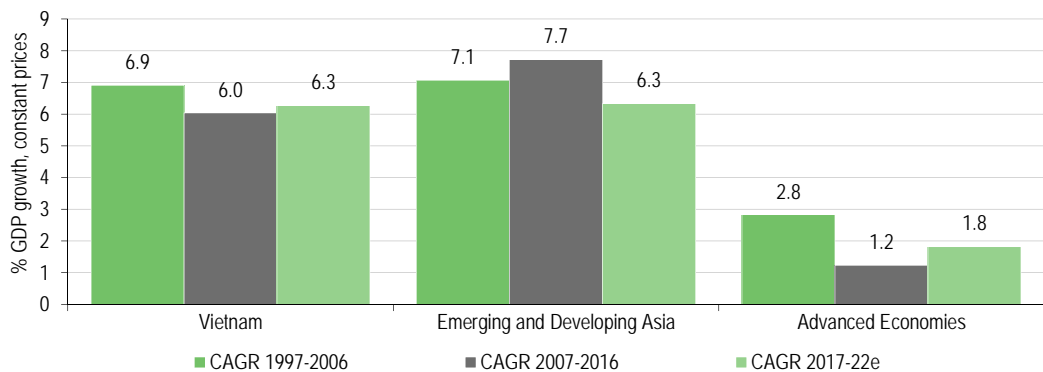
Top 10 holdings (as at 30 June 2017)			Portfolio weight %		
Company	Sector	First invested	30 June 2017	30 June 2016*	VN Index weight % 30 June 2017**
Vinamilk	Food & beverages	October 2003	12.5	18.8	12.2
Mobile World	Retail	October 2014	7.6	2.4	1.7
Military Bank	Banks	March 2010	6.9	6.2	2.0
Asia Commercial Bank	Banks	December 1996	5.9	5.5	N/A
FPT Corp	Technology	March 2008	5.8	6.0	1.2
Hoa Phat Group	Materials & resources	June 2009	4.4	6.7	2.2
Vietjet Air	Transport	December 2016	4.3	N/A	2.2
PV Gas	Energy	November 2010	4.1	5.6	5.9
Khang Dien House	Real estate	November 2013	3.7	3.6	0.4
ACV	Transport	December 2015	3.4	2.8	N/A
<b>Top 10 at each date</b>			<b>58.6</b>	<b>63.1</b>	<b>55.8</b>

Source: VEIL, Edison Investment Research, Bloomberg, Thomson Reuters. Note: \*N/A where not in June 2016 portfolio. \*\*N/A where not a constituent of the VN Index.

## Market outlook: Robust medium-term growth expected

While falling short of the government's 6.7% target, Vietnam's GDP growth reached 6.2% in 2016, above the 6.0% pa growth rate of the previous 10 years and only modestly below the 6.7% achieved in 2015. The shortfall was primarily due to the mining sector's steep 6.0% decline, affected by weak commodity prices, and the effect of poor weather on the agricultural sector. Manufacturing remained a key economic driver, recording 11.9% growth, its highest rate in seven years, while the services sector, which represents the largest component of GDP at 41.8%, achieved 7.0% growth, its highest rate in five years, indicating strong domestic demand. The Vietnamese economy appears set to maintain a similar rate of growth over the medium term, reflected by the IMF's April 2017 projection for 6.3% pa GDP growth between 2017 and 2022, which is in line with the emerging and developing Asia region as a whole and well ahead of growth expectations for advanced economies, as illustrated in Exhibit 2.

**Exhibit 2: Real GDP growth – Vietnam versus developing Asia and advanced economies**



Source: IMF April 2017 WEO, Edison Investment Research

Vietnam recorded a US\$2.7bn trade surplus in 2016, with total exports rising 8.6% to US\$176bn, below the government's 10% target, due to the slowdown in global trade and a decline in export prices. The value of crude oil exports fell 37%; excluding oil, total exports grew by 11.8%. The US remained Vietnam's largest export market at 21.7%, followed by the EU at 19.3%. Imports rose 4.6% to US\$173.3bn in 2016, with China remaining Vietnam's largest import partner at 28.7%, although the trade deficit with China declined by 15% to US\$28bn.

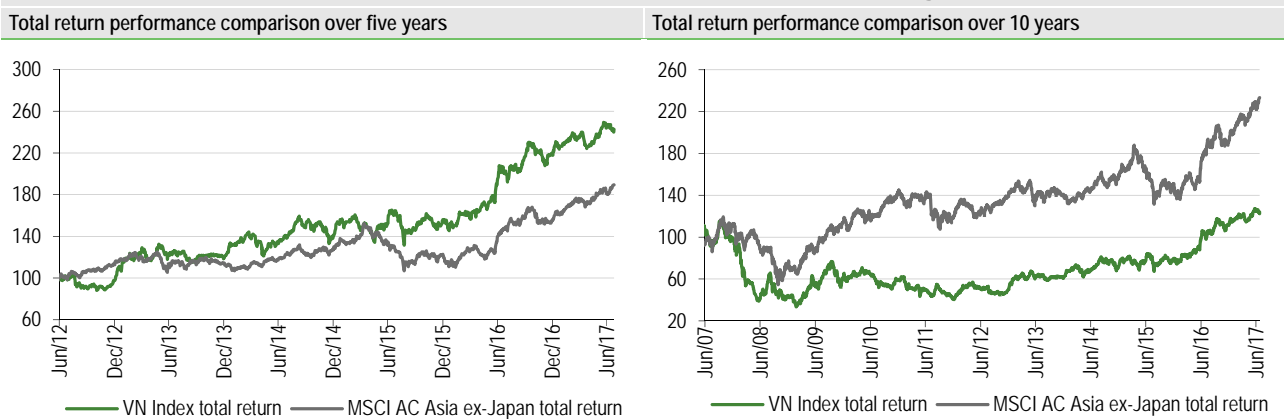
While President Trump's decision that the US should withdraw from the Trans-Pacific Partnership (TPP) was unwelcome, given the boost that this agreement had been expected to give Vietnam's economy, other trade deals present opportunities. Vietnam has free trade agreements with the EU, Japan and Korea, and is currently negotiating deals with the Regional Comprehensive Economic Partnership (RCEP, comprising the 10 ASEAN states plus China, India, Australia, Japan, South Korea and New Zealand) and Hong Kong. The RCEP deal could have a significant effect on Vietnam's economic growth, as 42.3% of exports go to RCEP member states, compared with 38.8% to TPP members. Vietnam's competitive labour cost, geography and improving infrastructure have been encouraging foreign direct investment (FDI), with disbursed FDI rising 9% in 2016 to US\$15.8bn, the highest level on record.

Vietnam's budget deficit reached 5.5% in 2016, which was higher than the government's 4.9% target, primarily due to lower-than-expected nominal GDP growth. A steady 5.5% fiscal deficit has increased public debt, with the World Bank estimating that debt reached 64.1% at end-2016, close to the 65% debt ceiling set by Vietnam's National Assembly. This represents a challenge for the government but encourages SOE reform, with receipts from privatisation and divestment of state assets reducing planned government borrowing to US\$15bn in 2017 versus US\$20bn in 2016.

The Vietnamese stock market has delivered a strong performance in both absolute and relative terms over the last five years, with the VN Index rising by 143% in sterling terms, outperforming the MSCI AC Asia ex-Japan Index by 28% (Exhibit 3 left-hand chart). A 10-year view provides a different perspective, with the VN Index slower to recover following the 2008 global financial crisis and returning only 24% over this longer period, substantially underperforming the 133% return of the MSCI AC Asia ex-Japan Index (Exhibit 3 right-hand chart). The VN Index fell 68% from end-October 2007 to end-October 2008, reflecting the 39% decrease in CY08 EPS. This compares with a 65% decline for the MSCI AC Asia ex-Japan Index over the same period, with a 35% decrease in CY08 EPS. While VN Index EPS bounced back sharply, recording a 74% increase in CY09 and 14% rise in CY10, the MSCI AC Asia ex-Japan Index EPS was slower to recover, registering a 14% rise in CY09 and 51% increase in CY10. Both indices then saw a subdued period for earnings between CY10 and CY16, with the VN Index recording a 1.5% pa EPS decline and the MSCI AC Asia ex-Japan Index a 1.2% pa EPS decline.

The similarity of the VN Index's EPS progression to that of the MSCI AC Asia ex-Japan Index from CY08 to CY16 contrasts with the wide difference in relative performance of the two indices over the same period and suggests that scope exists for the more recent outperformance of the Vietnamese stock market to continue, given the similarity of Vietnam's economic growth prospects to the wider emerging and developing Asia region.

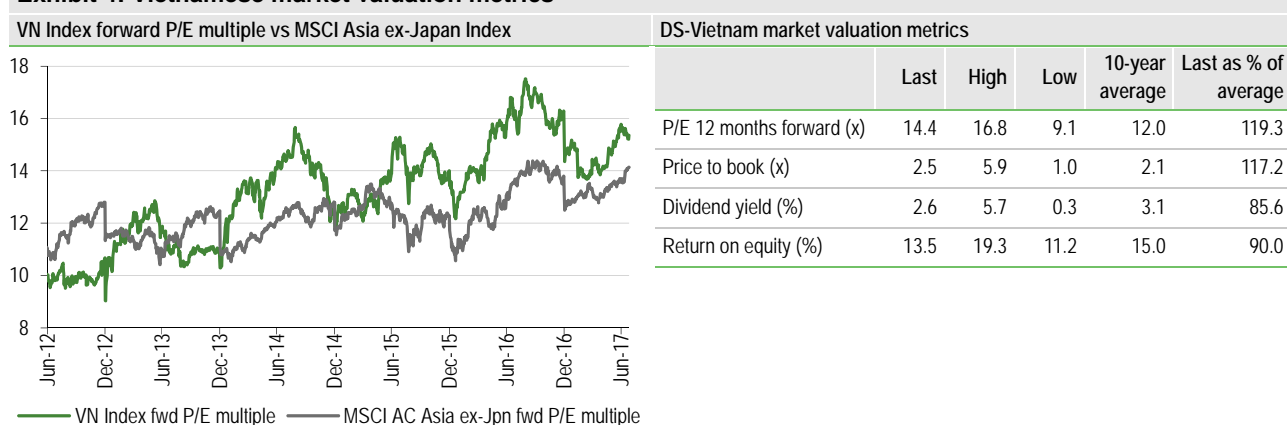
**Exhibit 3: Vietnam VN Index performance vs MSCI Asia ex-Japan Index in sterling terms**



Source: Bloomberg, Edison Investment Research. Note: Data to 24 July 2017.

Over five years, Bloomberg data shows that the VN Index forward P/E multiple has risen from 9.9x to 15.4x and, having declined considerably from its August 2016 high of 17.5x, it now stands at a 8.6% premium to the broader MSCI AC Asia ex-Japan Index's 14.1x forward P/E multiple (Exhibit 4 left-hand chart), modestly lower than the 13.3% average premium over the last three years. The VN Index's higher rating reflects its superior earnings growth, with Bloomberg figures showing 1.3% pa reported EPS growth from CY13 to CY16 compared with a 4.1% pa decline for the MSCI AC Asia ex-Japan Index. Bloomberg figures also show forecast EPS growth for the VN Index of 21% for CY17 and 15% for CY18 versus 19% and 10% respectively for the MSCI AC Asia ex-Japan Index.

Considering a wider range of valuation metrics, as shown in Exhibit 4 (right-hand table), Datastream data shows that, while the Vietnamese market's dividend yield is below its 10-year average and its price to book multiple is above its 10-year average, return on equity is below its longer-term average, suggesting scope for returns to improve. Given Vietnam's positive medium-term economic outlook and the favourable backdrop that this provides for corporate earnings growth prospects, the market valuation does not appear overstretched.

**Exhibit 4: Vietnamese market valuation metrics**


Source: Bloomberg, Thomson Datastream, Edison Investment Research. Note: Data to 24 July 2017.

VEIL's investment manager emphasises that the valuation of the top 50 stocks in their investible universe is lower than the VN Index, noting that at 15 June 2017, the forward P/E multiple of these top 50 stocks in aggregate was 13.9x, with forecast EPS growth of 17.3% in 2017. This compares with Bloomberg's forward P/E multiples of 15.1x for the VN Index and 13.5x for the MSCI AC Asia ex-Japan Index at the same date. In comparison with other stock markets in the Asian region, the manager's analysis indicates that the Vietnamese market is trading below Bloomberg's 14x to 21x forward P/E multiple range for Sri Lanka, China, Thailand, Malaysia, India, Indonesia and the Philippines, with only Pakistan trading at a lower multiple (9x). Against this, the manager highlights that the Vietnamese market's earnings growth prospects are above Credit Suisse's forecast 1.5% to 17.0% range for China, India, Pakistan, Thailand, Philippines and Malaysia, and similar to Indonesia's c 17.5% forecast growth, with only Sri Lanka forecast to see higher EPS growth (24%).

Other factors that look set to contribute positively to Vietnam's market development over the next 12 months include accelerated SOE reform, with the government scheduled to divest its holdings in a number of companies including conglomerates Satra Group and Ben Thanh Group, and water utility Sawaco; as well as progress towards a more effective relaxation of FOLs. To date in 2017, the government has reduced its holding in Vietnam's largest importer and distributor of oil products, Petrolimex, on its listing on the HSX (Ho Chi Minh City Stock Exchange), and has reduced its stake from 75% to 55% in state-owned construction materials manufacturer Viglacera, through the auction of new shares. Further potential government divestments include hotel operator Saigon Tourist, oil refiner Binh Son Refining and fuel retailer PV Oil. There are also a number of privately owned companies that are expected to list or place shares over the next 12-18 months, including Vietnam Prosperity Bank and Techcom Bank, which both have an estimated book value of c US\$900m. Securities laws were changed in September 2015 to remove a blanket 49% FOL, increasing the FOL in many sectors to 100%, with FOLs of 30% to 65% remaining in 12 specific business sectors. However, other laws need to be amended so that domestic companies with more than 50% foreign ownership are not subjected to the same regulations as foreign companies. Further amendments to Vietnam's securities laws addressing FOLs are currently expected in mid-to late-2018. The government is now considering raising the 30% FOL for banks, one of seven sectors where Vietnam has made foreign ownership restriction commitments to the WTO.

In summary, while there are near-term risks relating to developments in China, management of Vietnam's fiscal balance and the progress of government reforms, the medium-term economic outlook provides a healthy environment for corporate earnings growth. In this context, the valuation of the Vietnamese stock market does not appear overstretched, leaving scope for the market to move higher through a combination of earnings growth and re-rating. Investors seeking access to this fast-growing frontier market could be attracted by a large, well-established fund with a focused equity portfolio, which is managed by a well-resourced investment team dedicated to the country.

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## Fund profile: Focused Vietnamese equity portfolio

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VEIL is an LSE-listed, closed-ended investment company, incorporated in the Cayman Islands, which stands as one of the largest and longest established funds focused on Vietnam. In July 2016, VEIL's shares were admitted to trading on the Main Market of the London Stock Exchange and delisted from the Irish Stock Exchange, where they had traded since its launch in August 1995. VEIL's shares were included in the FTSE 250 Index as of 18 July 2017. VEIL adopts a value-orientated investment style, using a research-driven, bottom-up approach to select stocks, and its portfolio is principally invested in Vietnamese listed companies, which operate businesses that are expected to benefit from Vietnam's underlying economic growth drivers. The investment process generally results in the selection of industry/sector leaders with good corporate governance that the manager considers are trading at compelling discounts to intrinsic value.

VEIL seeks to outperform the VN Index (a capitalisation-weighted index of all companies listed on the HSX) on a rolling three-year basis. However, portfolio construction is not constrained by index weightings and allocations are driven by the bottom-up investment process. While relatively concentrated, typically comprising 35 to 40 investments, the portfolio is diversified across more than 10 industries. Although primarily invested in HSX-listed companies, VEIL also has significant exposure (20% of NAV at end-2016) to non-benchmark stocks including pre-IPO and OTC-traded companies, as well as companies traded on the Hanoi Stock Exchange (HNX) and the Unlisted Public Companies Market (UPCoM).

VEIL's investment manager is Enterprise Investment Management, a wholly owned subsidiary of Dragon Capital, which ranks as Vietnam's leading foreign institutional fund manager, with US\$1.7bn assets under management. Founded in 1994, Dragon Capital is based in Vietnam, with offices in Thailand, Hong Kong and the UK, and has US\$1.6bn invested in listed equities, making it the largest investor in the Vietnamese stock market after the government. Dragon Capital has acted as VEIL's investment manager since its launch in 1995; the current investment management agreement can be terminated by VEIL giving 24 months' notice, not to expire earlier than July 2019.

VEIL's investment team comprises a portfolio manager and two deputy managers, overseen by an investment advisory committee, which comprises Bill Stoops, CIO, Le Minh Anh, CEO, Dr Le Anh Tuan, head of research, Gavin Patterson, chief risk officer, and Alex Pasikowski, deputy CEO. Dominic Scriven, Dragon Capital's chairman, sits on VEIL's investment committee as an observer. Vu Huu Dien has acted as VEIL's portfolio manager since 2010, having joined Dragon Capital as a senior analyst in 2000. Ngo Thanh Thao was appointed as a deputy portfolio manager in 2010, after three years as an analyst at Dragon Capital. In 2017, Bui Minh Tuan, an analyst at Dragon Capital since 2014, took over as a second deputy portfolio manager from Hoang Thi Hoa, who assumed other responsibilities after three years in the role. The investment team draws on Dragon Capital's wider resources, with all potential investments rigorously screened by Dragon Capital's in-house research team, which includes 11 analysts dedicated to Vietnamese equities.

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## The fund manager: Vu Huu Dien

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### The manager's view: Positive economic and market outlook

The manager sees the Vietnamese economy getting back on track in 2017 following a weak start, with 5.1% first quarter GDP growth, citing leading indicators in April pointing to continued economic strength. In particular, industrial production accelerated to 7.4% from 5.5% in March; foreign direct and indirect investment remained strong; government investment accelerated; exports grew strongly; the PMI remained robust above 50; and credit growth recorded the highest increase since 2013. The agricultural sector is recovering and manufacturing and domestic consumption remain

key growth drivers. Since staging a recovery in H116, commodity prices have been relatively subdued, so an inflationary threat is considered unlikely and foreign exchange rates are expected to remain broadly stable. Global uncertainties are seen as the biggest risk to Vietnam's economic growth prospects but the manager believes Vietnam is in a strong position to face these headwinds, with the government committed to reform and macroeconomic indicators appearing favourable.

A positive outlook is also seen for the Vietnamese stock market over the remainder of 2017, after strong momentum in the early part of the year, with the combined market cap of the HSX, HNX and UPCoM exchanges moving above US\$100bn at the end of March, after rising 42% from US\$60.6bn to US\$86.0bn in 2016. This growth is being driven by larger-cap company listings, such as Petrolimex (US\$1.2bn), Vietjet Air (US\$1.1bn), Vietnam Engine and Agricultural Machinery (US\$845m), PV Oil (US\$480m), PV Power (US\$1.4bn) and Binh Son Refining (US\$1.6bn), as well as landmark deals such as the state divestment of Sabeco in December 2016, and the likely forthcoming privatisations of Satra Group (US\$3.5bn), Ben Thanh Group, Sawaco and Saigon Tourist. The manager observes that the high number of completed and prospective larger-cap company listings in 2017 will markedly change the composition of the VN Index and the top 50 stocks in VEIL's investible universe. This does not create any particular concerns, as VEIL's portfolio allocations are not linked to index weightings, and the manager anticipates that new listings will include a number of highly attractive investment prospects, potentially representing once-in-a-decade opportunities.

The manager cites ACV and Vietjet Air as examples of undervalued IPO stocks where VEIL was able to invest due to its market knowledge and expertise, and continues to pursue this strategy, hoping to achieve similar results from upcoming IPO listings. In US dollar terms, airport operator ACV's shares rose 86.4% from when it started trading on UPCoM in November 2016 to end-2016, bringing VEIL's gain to 264% since purchasing the stock in December 2015. In December 2016, VEIL participated in the pre-IPO and IPO of Vietjet Air, the leading low-cost carrier and the second-largest airline in Vietnam. The IPO was oversubscribed, attracting strong institutional and retail investor interest. Both companies have subsequently announced strong 2016 operating results.

The biggest detractor to VEIL's performance in 2016 was the banks sector, with the manager attributing the weak performance to very high provisions being made for non-performing loans (NPLs), driven by sector restructuring, as well as a restrained outlook for credit growth, with banks facing pressure to raise capital to meet Basel II standards. In addition, market expectations for bank FOLs to be lifted went unfulfilled, and they remained at 30%. Nonetheless, the portfolio's banking exposure outperformed the market in 2016 due to its holdings representing the better performing stocks, including Vietcombank, ACB and Military Bank. In contrast to 2016, the banks sector surged in early 2017, with Vietnam's prime minister giving a clear indication of the government's intention to lift bank FOLs and signalling government plans to restructure Vietnam's five weakest banks. Sector sentiment was also helped by the lowering of the capital adequacy ratio from 9% to 8% and a delay in the official implementation of Basel II capital requirements until 2020. ACB outperformed after its chairman indicated it would resolve its troubled legacy asset issues during 2017, while Military Bank announced a change in key management, leading to expectations that a focus on improving productivity will drive strong earnings growth, which was already seen in Q117 results.

Commenting on the outlook for the balance of 2017, the manager highlights that, in aggregate, the top 50 stocks in VEIL's investible universe are forecast to deliver 16.3% EPS growth over the year, while trading at an average forward earnings multiple of 13.0x which, in his view, gives Vietnamese stocks one of the most compelling growth/valuation metrics in the region. He notes that VEIL's top 10 holdings in aggregate are trading on a forward P/E multiple of 13.6x and are forecast to deliver 20.6% EPS growth, representing a more attractive PEG (P/E multiple: growth) ratio. Additionally, the manager points to the superior 2.8% prospective yield of VEIL's top 10 holdings, compared with the 2.6% prospective yield of the top 50 stock universe.

## Asset allocation

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### Investment strategy: Focused on Vietnamese listed equities

VEIL's investment objective is to achieve medium- to long-term capital appreciation of its assets by investing in a relatively concentrated portfolio, typically comprising 35 to 40 investments in companies primarily operating in, or with significant exposure to Vietnam. The majority of VEIL's portfolio is invested in Vietnam's top 70 listed 'blue chip' companies, with market caps generally down to a cut-off of US\$200m, but the investment team is expanding its coverage of mid-cap stocks in the US\$50-200m range. Although liquidity remains a concern, the team's in-depth research aims to identify those mid-cap stocks where significant upside prospects are considered to outweigh the disadvantage of lower liquidity. While not an activist investor, VEIL seeks to collaborate with the management of investee companies, advising them on actions to enhance company value, in areas such as business strategy, capital structure, corporate governance and investor relations. In 2017, a key element of VEIL's approach is to capture new investment opportunities through participating in IPOs, private placements, pre-listings and state divestments.

The majority of VEIL's portfolio investments are equities trading on the Stock Trading Center of Vietnam in Ho Chi Minh City (HSX) and the Hanoi Stock Exchange (HNX). VEIL also invests in the unlisted securities of both private companies and state-owned enterprises (SOEs) ahead of a planned IPO, as well as equities listed on the Unlisted Public Company Market (UPCoM), where public companies list their shares following IPO, prior to listing on either of the two main stock exchanges. The manager aims to limit total exposure to unlisted securities and shares listed on UPCoM (which often have low liquidity) to 15% of VEIL's NAV. At end-June 2017, VEIL's unlisted investments comprised three OTC-listed equities: Vietnam Engine and Agricultural Machinery, Tin Nghia and VietCap Securities, which together represented 3.5% of NAV. Among VEIL's listed investments, only ACV and Vinatex were UPCoM-listed at end-June 2017, together representing 4.4% of NAV.

While there are no restrictions by market capitalisation or industry sector, the following gross assets exposure limits are observed at the time of investment, with a view to risk management: 20% to a single counterparty, 20% to any one issuer, 40% to any one industrial sector. In practice, no more than 8% of NAV is allocated to any new investment. VEIL is permitted to invest up to 20% of its net asset value in companies operating in, or with significant exposure to Cambodia and Laos, but the manager has refrained from investing due to concerns over the small size and low liquidity of each country's stock market. VEIL may also invest in listed or unlisted debt securities or loan instruments but currently has no exposure.

VEIL may use derivatives for investment purposes as well as efficient portfolio management and is permitted to invest up to 10% of NAV in other investment companies that focus on securities falling within VEIL's investment policy. VEIL aims to be substantially fully invested under normal market conditions. However, when considered prudent (such as when there is a lack of suitable investment opportunities or during periods of falling markets or elevated market volatility), VEIL may also hold a significant proportion of NAV in cash or other short-term investments such as commercial paper or certificates of deposit.

### Investment process: Research-driven, bottom-up analysis

The investment process is driven by individual company research, which incorporates an in-house view of the broader economic outlook. The analyst team covers the top 60-70 listed stocks by market cap, focusing on the top 50 stocks in VEIL's investible universe, which excludes companies that are deemed non-compliant from an ESG perspective. Guided by head of research Dr Le Anh Tuan, each of the 11 analysts is a sector specialist, responsible for maintaining detailed coverage of



the leading stocks in their sector, which includes regularly meeting with company management and providing input to the ESG assessment.

The research team generates investment ideas based on each analyst's detailed analysis and their specialist sector knowledge. These ideas are reviewed by the portfolio managers, who take a wider perspective, making portfolio allocation decisions with the aim of constructing a portfolio that should outperform the VN Index benchmark. All new investment decisions are reviewed by the investment advisory committee, based on written reports prepared by the portfolio managers. The committee meets monthly to discuss matters raised by the portfolio managers as well as conducting its own portfolio review. When appropriate, it has authority to intervene in portfolio matters and direct the portfolio managers to undertake any actions deemed necessary to keep returns on track.

In addition to maintaining coverage of listed companies, the research team conducts detailed analysis of pre-IPO companies. Once a company is identified as a potential IPO candidate, the relevant sector analyst will arrange to meet the company's management and prepare a detailed analysis ahead of the IPO being launched. This places VEIL in a strong position to participate in the IPO auction process, which usually occurs at 30 days' notice without a prospectus being published, meaning that only limited information is typically available to potential investors.

## Current portfolio positioning

VEIL has a relatively concentrated portfolio, comprising 40 holdings at end-June 2017, with the top 10 representing 58.6% of NAV, modestly lower than at end-June 2016 when the top 10 represented 63.1% of NAV (see Exhibit 1). A major element of the decline in the top 10 weighting is accounted for by Vinamilk, with VEIL reducing its exposure from 18.8% to 12.5% of NAV over the year. While remaining the largest portfolio holding, VEIL's exposure to Vinamilk is now only slightly higher than the stock's 12.2% weighting in the VN Index at end-June 2017. Seven of the top 10 holdings remain from a year earlier, but this reflects performance differentials as well as portfolio additions and sales, with Vietjet Air the only new investment among these stocks. Within the top 10 holdings, Asia Commercial Bank has been in the portfolio for more than 20 years, while Vinamilk has been held for over 10 years, and the manager reports that typical annual portfolio turnover is around 35%.

**Exhibit 5: Portfolio sector exposure at end-June 2017**

% unless stated	Portfolio 30 June 2017	Portfolio 30 June 2016	Change (pp)	VN Index weight	Active weight vs index	Trust weight/ index weight
Real estate	16.7	14.8	1.9	13.4	3.3	1.2
Banks	16.5	19.5	(3.0)	19.1	(2.6)	0.9
Food & beverage	15.3	18.8	(3.5)	23.9	(8.6)	0.6
Materials & resources	10.8	11.7	(0.9)	6.0	4.8	1.8
Transportation	8.0	2.8	5.2	3.9	4.1	2.0
Retail	7.6	6.0	1.6	2.0	5.6	3.8
Energy	6.0	2.5	3.5	11.4	(5.4)	0.5
Software & services	5.8	1.5	4.3	1.3	4.5	4.4
Diversified financials	4.5	6.0	(1.5)	3.3	1.2	1.4
Capital goods	3.4	2.7	0.7	4.6	(1.2)	0.7
Automobiles & components	2.2	0.0	2.2	0.5	1.7	4.4
Pharmaceuticals	1.8	3.3	(1.5)	1.7	0.1	1.1
Consumer durables	1.7	6.3	(4.6)	1.2	0.5	1.4
Other sectors	0.0	4.1	(4.1)	7.7	(7.7)	0.0
	100.0	100.0		100.0		

Source: VEIL, Edison Investment Research

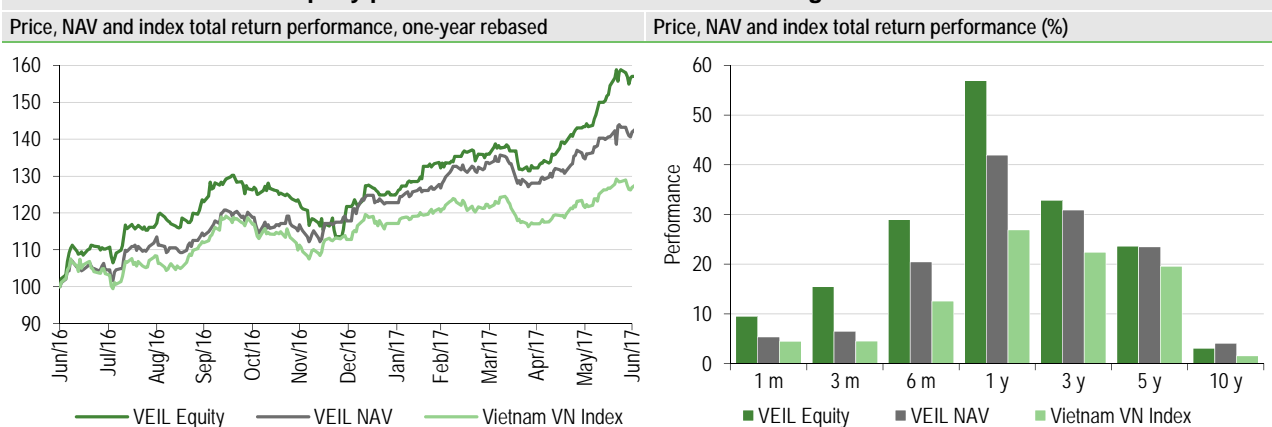
Exhibit 5 shows how VEIL's portfolio is diversified across more than a dozen sectors, despite being concentrated in a relatively small number of holdings. Sector exposures at end-June 2017 were broadly similar to a year earlier, with the largest weightings in the real estate, banks and food & beverage sectors, which together represent around 50% of the portfolio. The most significant changes in sector weightings over the year were a 5.2pp increase in transportation, a 4.6pp decrease in consumer durables and a 4.3pp increase in software & services. The increase in transportation exposure partly results from the strong performance of VEIL's holdings in the sector

during the year, as well as top 10 holding Vietjet Air being added to the portfolio in December 2016. Food & beverage exposure declined by only 3.5pp despite a 6.3pp reduction in Vinamilk, due to Sabeco, Vietnam's leading beer producer, being added to the portfolio when the state divested its stake in December 2016.

## Performance: Notably strong over one year

Exhibit 6 illustrates VEIL's exceptionally strong NAV performance over one year to end-June 2017 in absolute terms, with its 41.9% NAV total return in sterling terms comparing to the 26.9% return of the VN Index. Sterling weakness accounts for a relatively small part of this performance, with sterling having declined only 2.8% against the US dollar over the period. The relatively weak performance of both VEIL and the VN Index over 10 years is largely due to the very pronounced pre-financial crisis stock market peak in 2007, which is captured at the start of this time period. We note that VEIL's 12-year NAV total return is 15.7% pa, which provides a better reflection of its longer-term performance.

**Exhibit 6: Investment company performance to 30 June 2017 in sterling terms**



Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

As illustrated in Exhibit 7, VEIL's price and NAV total returns have both outperformed the Vietnam VN Index over one, three, five and 10 years, helped by notably strong absolute and relative NAV performance over the year to end-June 2017.

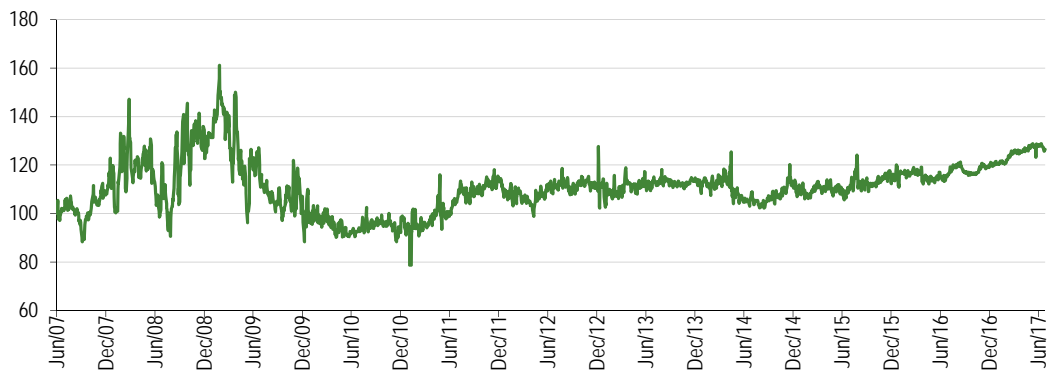
**Exhibit 7: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Vietnam VN Index	4.8	10.5	14.6	23.7	27.8	18.0	16.2
NAV relative to Vietnam VN Index	0.9	1.9	7.0	11.8	22.3	17.3	28.4
Price relative to Vietnam VN30 Index	3.0	7.8	9.6	23.5	39.7	43.0	N/A
NAV relative to Vietnam VN30 Index	(0.9)	(0.6)	2.4	11.6	33.7	42.3	N/A
Price relative to MSCI Emerging Markets	9.0	12.7	14.3	22.8	70.6	93.3	(29.8)
NAV relative to MSCI Emerging Markets	4.9	3.9	6.8	11.1	63.2	92.3	(22.4)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-June 2017. Geometric calculation.

While VEIL's performance relative to the VN Index fluctuated immediately before and after the 2008 global financial crisis, Exhibit 8 illustrates that since March 2010, VEIL's NAV return has not been particularly differentiated from the VN Index but has achieved a fairly steady outperformance, which is slightly more pronounced since September 2014.

**Exhibit 8: NAV total return performance relative to VN Index over 10 years**



Source: Thomson Datastream, Edison Investment Research

## Discount: Active discount management policy

The board's intention is to implement an active discount management policy when it believes this is in the interests of shareholders as a whole, including addressing any imbalance between the supply of and demand for VEIL's shares. Market repurchases of shares will only be made at prices (after allowing for costs) below the relevant prevailing NAV per share. Repurchased shares may be cancelled or held in treasury (up to a maximum of 10% of shares outstanding). Shares may be reissued from treasury but, unless previously approved by shareholders, will not be issued at a price lower than the last reported NAV per share, taking issue expenses into account.

As illustrated in Exhibit 9, VEIL's share price has ranged between a 21.5% premium and a 50.0% discount to NAV over the last 10 years, although the range has narrowed substantially since the 2008 global financial crisis. Over three years, VEIL's share price discount to NAV has touched a high of 24.2% and recent narrowing has taken the discount to a low of 7.9%. The current 10.6% discount compares to its 17.4% and 18.4% three- and five-year averages.

**Exhibit 9: Share price premium/discount to NAV over 10 years (%)**



Source: Thomson Datastream, Edison Investment Research

## Capital structure and fees

VEIL has two classes of share capital in issue: non-redeemable management shares and ordinary shares. Dragon Capital holds all 1,000 management shares in issue, which carry a single vote but entitle the holders to appoint two individuals to the board. The management shares do not carry any

right to dividends and, in the event that the company is wound up, holders are entitled to a return of paid-up nominal capital only after the return of paid-up nominal capital on VEIL's ordinary shares.

VEIL has 220.1m ordinary shares in issue, having repurchased 0.8m shares since a share buy-back programme was commenced in February 2017. Authority (to be renewed annually) was granted by shareholders for the repurchase of up to 14.99% of VEIL's issued share capital at the December 2016 AGM. As at end-December 2016, Dragon Capital beneficially held 3.7m ordinary shares (1.7% of shares in issue) for investment and proprietary trading purposes. The ordinary shares have been listed on the Main Market of the LSE since July 2016 and were included in the FTSE 250 Index with effect from 18 July 2017.

VEIL is permitted to borrow up to 20% of net asset value (at the time of borrowing) for the purposes of capital flexibility, including for investment purposes. The board oversees the level of gearing and regularly reviews the position with the investment manager. The board has recently increased approved borrowing from US\$50m to the lower of 10% of NAV or US\$100m (currently equating to c 8% of NAV). VEIL has a US\$40m one-year term credit facility with Standard Chartered Bank and is currently negotiating an additional US\$60m facility to facilitate participation in upcoming IPOs and private placements. In December 2016, the US\$40m facility was fully drawn to finance investments in Vietjet Air, Mobile World and Sabeco, with US\$2m repaid during April and a further US\$18m repaid in May 2017. The remaining US\$20m of debt currently outstanding, which is scheduled for repayment by the end of July 2017, represents gross gearing of 1.6% of NAV, while net gearing was 0.4% of NAV at end-June 2017.

VEIL has been paying its investment manager, Enterprise Investment Management, a subsidiary of Dragon Capital, a monthly management fee, which accrued daily at the rate of 2.0% per annum based on VEIL's prevailing net asset value. On 1 August 2017, a tiered management fee structure will take effect, with a 2.0% pa fee applied on net assets up to US\$1.25bn, reducing to 1.75% pa on net assets between US\$1.25bn and US\$1.50bn, and further reducing to 1.50% pa on net assets above US\$1.50bn. The investment manager is not entitled to a performance fee. In FY16, VEIL incurred total expenses of US\$22.1m, which equates to a total expense ratio of 2.27%, based on the average of its opening and closing net assets for the year. Excluding US\$1.1m of non-recurring expenses relating to the admission of VEIL's shares to the LSE, similar to the AIC's ongoing charge calculation, gives an expense ratio of 2.16%.

## Dividend policy and record

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VEIL's investment objective is to achieve medium- to long-term capital appreciation of its assets and, as a result, the board has no current intention to declare dividends. However, if deemed appropriate, the board is permitted to declare a dividend to holders of ordinary shares from distributable reserves.

## Peer group comparison

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Exhibit 10 shows a comparison of VEIL with the other members of the AIC Country Specialists – Asia Pacific sector excluding Kubera Cross-Border, which principally makes private equity investments. VEIL is one of the larger funds in the sector and the largest of the three funds in the peer group of 11 that specialise in Vietnam. This subgroup of Vietnam specialist funds provides the most relevant peer comparison whereas, to a large extent, comparison across the wider peer group reflects performance differences between stock markets across the Asia Pacific region.

**Exhibit 10: Country Specialists – Asia Pacific peer group as at 24 July 2017\***

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	NAV TR 12 Year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Vietnam Enterprise Investments	816.7	41.9	124.2	186.9	49.6	475.1	(10.6)	2.16	No	100	0.0
Aberdeen New India	280.3	21.8	76.7	121.0	211.4	386.2	(8.8)	1.30	No	100	0.0
Aberdeen New Thai	98.6	21.1	40.8	75.2	310.7	521.7	(12.7)	1.45	No	101	2.0
Barramundi	43.6	4.5	24.0	37.8	53.5		(10.4)	1.99	Yes	100	0.0
Fidelity China Special Situations	1,193.8	35.0	113.9	223.1			(11.7)	1.16	No	124	1.2
India Capital Growth	103.9	32.8	84.0	150.4	(5.0)		(19.1)	1.79	No	100	0.0
JPMorgan Chinese	188.9	39.7	64.0	111.3	161.2	365.7	(12.4)	1.44	No	107	0.6
JPMorgan Indian	784.9	18.5	70.4	108.8	118.0	349.3	(10.6)	1.22	No	107	0.0
VietNam Holding	133.6	10.4	96.8	167.8	100.0		(12.9)	2.85	Yes	100	0.0
VinaCapital Vietnam Opportunity Fund	607.9	30.1	93.7	134.9	124.5	413.9	(18.1)	2.07	Yes	100	0.0
Weiss Korea Opportunity	149.2	28.8	46.3				(3.7)	1.80	No	100	1.9
Peer group average	400.1	25.9	75.9	131.7	124.9	418.7	(11.9)	1.75		104	0.5
Rank in peer group	2	1	1	2	8	2	4	2		5	5
Vietnam subgroup average	519.4	27.5	104.9	163.2	91.4	444.5	(13.8)	2.36		100	0.0
Rank in subgroup	1	1	1	1	3	1	1	2		1	1

Source: Morningstar, Bloomberg, Edison Investment Research. Note: \*Performance data to end-June 2017. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

VEIL's NAV total return is ahead of the peer group average over one, three and five years, but some way below the peer group average over 10 years. Within the Vietnam subgroup, VEIL's NAV total return is also ahead of the average over one, three and five years, but below average over 10 years. We note that the performance comparison over 10 years is unfavourable for VEIL as it captures returns since Vietnam's very pronounced pre-financial crisis stock market peak in 2007. VEIL's performance was more affected than the two other Vietnam-focused funds during the crisis due to VietNam Holding not being fully invested, having launched in 2006, and VinaCapital Vietnam Opportunities Fund holding private equity investments, which are less affected by market volatility. To give an alternative, potentially more representative longer-term perspective, we include 12-year data in the performance comparison. VEIL's NAV total return is ahead of both the peer group and Vietnam subgroup averages over this period.

VEIL's ongoing charge is higher than the peer group average but below the average of the three Vietnamese specialist funds, and it is the only fund in the subgroup not paying a performance fee. The introduction of a tiered fee structure from August 2017 should lead to a decline in VEIL's ongoing charge if net assets continue to rise. Recent narrowing has seen VEIL's share price discount to NAV move below the peer group average and it is also narrower than both the other Vietnam fund discounts. Similar to the majority of the peer group and the other two Vietnam-focused funds, VEIL does not pay a dividend.

## The board

VEIL's board comprises six non-executive directors, all of whom are independent with the exception of Dominic Scriven, who founded Dragon Capital. All directors stand for re-election annually at the AGM. Chairman Wolfgang Bertelsmeier (appointed director July 2009, chairman November 2013) spent more than 30 years at the World Bank, including 17 years at the IFC (International Finance Corporation), serving as Resident Representative for Vietnam from 1997 to 2000, before retiring in July 2007. Dominic Scriven (appointed May 1995) has over 30 years' investment experience, concentrated in Vietnam. He is a Vietnamese speaker and a director of several Vietnamese public companies. Derek Eu-Tse Loh (appointed March 2011) qualified as a barrister in the UK and moved to Singapore in 1993, since when he has practised in the field of construction and engineering law. Gordon Lawson (appointed July 2014) previously served on the European management board at Salomon Brothers/Citigroup, followed by seven years as a founding partner at global event-driven fund Pendragon. He was chairman of London-listed fund Indochina Capital Vietnam from 2008 to 2013 and is currently a director of Ukrainian Opportunities Fund, Turiya Funds and Blakeney.

Dr Marc Faber and Stanley Chou were both appointed as directors in January 2016, replacing non-independent director Farida Khambata (appointed April 2012) and Susie Rippingall (appointed July 2014). Faber is an independent investment advisor based in Thailand, having served as managing director of Drexel Burnham Lambert in Hong Kong from 1978 to 1990. Based in Hong Kong, Chou has over 20 years' experience in finance and has been investing in Vietnam since 2005. He is managing director of investment advisory companies Lufin Asia Pacific and SCA International.

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